February 4, 2003

Acting Undersecretary for Domestic Finance Brian C. Roseboro
February 2004 Quarterly Refunding Statement

We are offering, in this refunding, $56.0 billion of notes to refund approximately $26.6 billion of privately held notes and bonds maturing on February 15, raising approximately $29.4 billion. The securities are:

1. A new 3-year note in the amount of $24 billion, maturing February 15, 2007.
2. A new 5-year note in the amount of $16 billion, maturing February 15, 2009.
3. A new 10-year note in the amount of $16 billion, maturing February 15, 2014.

These securities will be auctioned on a yield basis at 1:00 PM Eastern time on Tuesday, February 10, Wednesday, February 11, and Thursday, February 12, respectively. The balance of our financing requirements will be met through the monthly issuance of 2 – year and 5-year notes, the 10-year note reopening and 10-year TIPS, and bill offerings. The Treasury is likely to issue cash management bills in early March and April.

Expanding the TIPS Market

Treasury continues to examine ways of promoting inflation-indexed securities and expanding the market for this asset class. We are pleased with the growth and development of this market to date and remain committed to further expansion.

Treasury is considering the possibility of adding one or more TIPS maturity point(s), including maturities both longer than and shorter than the current 10-year TIPS. Additional issuance would help meet the natural and growing demand for inflation protected investments, expanding and diversifying demand for Treasury securities. Depending on the fiscal environment, expansion of the TIPS market could come from shifting existing longer-term nominal issuance to TIPS issuance.

A decision will be reached by the May 2004 refunding. We invite market participants to comment on this matter at the debt.managment@do.treas.gov.

Six-decimal price awards in Treasury auctions

Treasury currently computes price awards in auctions to three decimal places based on the 3-decimal stop-out yield of bank-discount rates tendered in auctions. On short-dated instruments, this practice can produce different yields that generate the same invoice price. In other words, there is not a 1-to-1 mapping between 3-decimal yields and 3-decimal prices.

Therefore, we will publish awarded price determined to 6-decimal places per hundred; this will permit price determinacy for all Treasury auctions and will result in settlement (purchase) prices to the exact penny for a $1,000,000 face amount. We will keep market participants informed about the status of this pending change, which we expect to implement in the second half of this year.

Auction Contingencies

Treasury has discussed the factors and circumstances that might lead to an auction delay with market participants. These discussions have made it clear that each potential disruption will be unique and the appropriate responses do not lend themselves to simple protocols. Nonetheless, two general operating principles evolved from the contingency discussions; first, preparedness is an area of continuous improvement requiring regular testing of contingency systems. Second, market uncertainty in the event of an auction disruption can be reduced through open and frequent communications with market participants.

As such, Treasury will conduct any announced auction that is disrupted within an hour of the originally scheduled time and in the event that circumstances and conditions are such that a one hour postponement cannot be met, Treasury will communicate information to market participants as it becomes available.

The next quarterly refunding announcement will take place on Wednesday, May 5, 2004.

Please send comments and suggestions on these subjects or others relating to debt management to debt.management@do.treas.gov.